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PENSIONS & Annuities (1988)

InvestmentAge

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Stock issue cuts liability

Bethlehem boosts fund

By Curtis Vosti

BETHLEHEM, Pa. — Bethlehem Steel Corp. has gone on the attack against its huge pension liability and used much of the proceeds of a common stock offering to fund a $250 million contribution to the company's pension fund.

The nation's third-largest steelmaker, buoyed by strong investor interest and an upsurge in business, is aiming to reduce by more than 30% the $1.6 billion in unfunded accrued benefit obligations with which it began the year.

The unfunded accrued benefit obligation is the amount by which the company's pension fund would be underfunded if all of its 35,000 employees retired this year.

The first dent in the unfunded pension liabilities occurred in May when Bethlehem offered 10 million shares of common stock at $19 a share. A year earlier, Bethlehem's stock was mired in the single digits, partially due to investor concern about the $20 a ton the unfunded liabilities added to its steel-making costs, said Jeffrey Miller, a steel analyst with Duff & Phelps Inc., Chicago.

The offering, however, was snatched up, and about $170 million of the $184 million in proceeds from the offering was directed to the pension fund, said Gary Millenbruch, Bethlehem senior vice president and chief financial officer.

On June 1, the company contributed an additional $30 million to the fund from cash, followed by another $50 million at the end of the second quarter.

Mr. Millenbruch said if business continues as expected, Bethlehem will make additional payments this year,

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Bethlehem Steel Corp. has taken an aggressive approach to paring its unfunded pension liabilities, using the proceeds from a $250 million stock issue to fund a recent contribution.

Currency hires give teachers new class

By Marlene Givant

SPRINGFIELD, Ill. — The $7.1 billion Teachers' Retirement System of the State of Illinois is breaking investment ground, hiring two specialists to manage the fund's currency exposure separately from its underlying foreign stocks.

Instead of hedging into dollars as a short-term defensive measure, the fund will use currency management as a long-term investment. Other funds are only beginning to explore currency management options as the dollar's direction appears increasingly uncertain.

Officials of the Illinois fund, which will substantially increase its international exposure in the near

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Lawsuits embroil firm

Unauthorized trading alleged

By Barry B. Burr

EVANSTON, Ill. — Unilateral trades ordered by an ousted principal of Disciplined Investment Advisors Inc. caused a client to lose $2 million in the market, although the money management firm has never informed the unidentified client, according to allegations in a lawsuit and by representatives of the firm.

The alleged costly trades are revealed in a 16-page suit against Daniel J. Schweihs, the ousted principal. The suit was filed by Eugene M. Lerner and William J. Breen, the two remaining principals of the firm, who also are tenured professors of finance at Northwestern University's Kellogg School of Management.

Mr. Schweihs' ouster, the filing of the suit and Mr. Schweihs' subsequent countersuit mark the bitter breakup of the firm's three-man team. The three, who share ownership equally in Disciplined Investment, made the firm one of the fastest growing of the newly founded money managers of the decade's bull market. Started virtually from scratch in 1984, it now has $600 million under management in equities. The two professors continue to run the firm.

Disciplined Investment's clients, predominantly corporate pension sponsors, include the pension funds of Xerox Corp., Armstrong World Industries Inc., San Diego Gas & Light Co. and the Pension Benefit Guaranty Corp., according to a court filing listing 45 clients.

The clients, although they had been informed Mr. Schweihs had left in late April, never were told of the lawsuit that was filed some weeks later, or of the allegations contained in it, according to pension executives.

None of the pension executives was aware of the alleged unilateral trades. They declined to comment on the allegations in the suit or countersuit.

"I'm a little surprised about it," Robert J. Harmon, director of the Illinois State Board of Investment, Chicago, a client, said of the lawsuit. "One doesn't

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Disciplined Investment Advisors' three principals (from left) Daniel Schweihs, William Breen and Eugene Lerner came together at the firm whose slogan is "invest without emotion."

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LATE NEWS

401(k) plan regulations released

WASHINGTON — In its long-awaited regulations on 401(k) plans issued late last week, the Department of the Treasury has decided to retain hardship provisions for active employees to withdraw funds from the plans.

The regulations follow the current practice of allowing an employee to withdraw money to pay for college education, catastrophic medical expenses or the down-payment on a house. Employers had urged easing the hardship standard, arguing stringent rules would deter employee participation.

Dai-Ichi buys stake in realty firm

CHICAGO — Dai-Ichi Mutual Life, Japan's second largest insurance company, has acquired a 20% limited partner interest in LaSalle Partners Ltd., a Chicago-based real estate services firm, according to industry sources.

LaSalle has sought a partner for the purpose of infusing capital into the firm. Terms of the deal weren't disclosed.

Gretchen F. Needham, vice president-communications for LaSalle, would neither confirm nor deny the transaction. LaSalle *Partners is the parent of LaSalle Advisors Ltd.*, with about $2.22 billion in tax-exempt assets.

Insider trading proposal gains

WASHINGTON — Investment advisers and broker-dealers would be held liable for overlooking insider-trading or for failing to police that activity under a bill passed by the House Energy and Commerce Subcommittee on Telecommunications and Finance late last week.

The bill, which would toughen penalties for trading on material non-public information, says broker-dealers and investment advisers are as liable as the individual responsible for the illegal trade if they "knew or recklessly disregarded" facts that would give them reason to believe insider trading occurred. They also would be liable for "knowingly and recklessly" failing to establish, maintain or enforce" procedures designed to prevent violations.

Touche Remnant share acquired

BOSTON — Liberty Mutual Insurance Co. has acquired a 15% interest in Touche Remnant Holdings Ltd., the London-based holding company whose subsidiaries manage more than $6 billion in institutional and individual assets.

The investment will help Boston-based Liberty Mutual and its Chicago-based subsidiary, Stein Roe & Farnham, to offer international investment products managed by Touche Remnant. Stein Roe manages more than $13 billion.

UAM acquiring 20th manager

BOSTON — United Asset Management Corp. agreed to buy Sirach/Flinn, Elvins Capital Management Inc., a Seattle-based manager with $700 million in assets. Terms weren't disclosed. The purchase would bring to 20 the money management companies UAM owns and increase its total assets to $28.2 billion. The five principals of Sirach/Flinn will have long-term employment contracts with UAM.

Funds change manager rosters

• MORRISTOWN, N.J. — The $7 billion pension fund of Allied-Signal Inc., Morristown, N.J., has hired MIG Realty Advisors Inc., West Palm Beach, Fla., to make direct, separate account investments in real estate, said Edward T. Tokar Jr., vice president-investments.

No specific amount was allocated and no investments have been made yet. Assets will come from cash.

• COLUMBUS, Ohio — The Ohio Police and Firemen's Disability and Pension Board, overseeing $2.5 billion in defined benefit assets, released The Travelers Cos., Hartford, Conn., as an active equity manager and hired three other firms to run the $300 million portfolio, said Ted Hall, manager-investments.

Taking over equal shares of the Travelers account are Atalanta/Sosnoff Capital Corp., New York; Loomis, Sayles & Co. Inc., Detroit; and Oppenheimer Capital Corp., New York.

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Consultant survey out

Questionnaires for *Pensions & Investment Age*'s annual directory of investment management consultants have been mailed.

If you have not yet received a questionnaire and wish to be included in the Oct. 17 directory, contact Christine Philip, directory coordinator, *Pensions & Investment Age*, 740 N. Rush St., Chicago, Ill. 60611-2590; (312) 649-5217.

Questionnaires must be returned by Sept. 5. If you have any questions, contact Ms. Philip.

Eastern waiver bid may hit turbulence

By Nicky Robertshaw

WASHINGTON — Eastern Air Lines Inc.'s latest effort to secure a waiver of its $105 million pension contribution is certain to fly into strong headwinds.

Failure to win government approval of the waiver request — Eastern's second in three years — would drain the company's meager cash resources and cause additional hardship for the airline, which already is beset by large recent losses, heavy debt burdens and labor problems.

Eastern — which had a projected benefit obligation of $1.5 billion while its assets at fair value were $1.2 billion, according to its most recent 10K filing — had announced its intention to apply for a waiver in connection with a restructuring that will eliminate the company's Kansas City operation and lay off 4,000 employees. (Last week a federal judge blocked the Kansas City closing; Eastern is appealing the order.)

An equally formidable challenge for Eastern, however, is last year's amendment to the Employee Retirement Income Security Act that gave the Internal Revenue Service "some basis for turning down waiver requests by companies that in all probability can't pull out" of their financial difficulties, said a pension law attorney who asked not to be identified.

Because the new standards for funding waivers went into effect only recently, this will be one of the first tests.

On July 29, Eastern asked the IRS for a waiver of the company's $105 million contribution due Sept. 15. The amount represents not only the payment owed for the 1987 plan year, but also an installment representing approximately one-third of the amount, plus interest, that was waived for the 1985 plan year.

While observers agree Eastern is undergoing financial problems, many are skeptical that the condition is temporary. In addition, the waiver amount represents about a quarter of the company's current cash position in a business where cash flow is critical, analysts said.

Eastern has about $300 million to $400 million in cash and is looking at a business drop-off after Labor Day, so $105 million is "pretty important to them," said Timothy Pettee, associate director at Bear Stearns & Co., New York. "In the airline business, cash is king."

"I tend to doubt Eastern's ability to grow and prosper," said Mr. Pettee. "Even with significant cost reductions and savings, the company won't have the necessary cost differential" compared with healthier airlines.

In addition to its labor problems and losses for the first two quarters of this year, "Eastern has humongous debts — and they're not going to go away overnight," said Charles P. Manchuso, senior airline analyst, Moody's Investors Service Inc., New York.

As of June 30, the company had $2.5 billion in total debt, he noted, with interest expenses for fiscal 1987 at about $300 million.

Eastern had losses of $31 million on revenue of $1.1 billion for the first quarter, and at press time was expected to announce deeper losses for the second quarter.

As of March 31, it had $2.4 billion in long-term obligations: $1.7 billion in long-term debt and $700 million in capital leases. That compares with total non-redeemable preferred stock and common shareholder equity of $28 million. During the quarter, Eastern paid out $71.4 million in debt service.

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James Balog, left, calls himself the "part-time" chairman of the newly christened 1838 Investment Advisors. W. Thacher Brown is president and chief executive officer of the reborn firm.

Faster growth mapped out by ex-Drexel unit

By Joel Chernoff

PHILADELPHIA — Free of the tarnish of the government investigation of former parent Drexel Burnham Lambert Inc., 1838 Investment Advisors will move to increase its product line and expand its marketing effort domestically and abroad.

The July 21 sale of Drexel's former money management arm — Drexel Burnham Lambert Investment Advisors — to its managers and an outside investor will help the firm move into a new era. The new firm's name reflects its 150-year-old beginnings as part of the original Drexel & Co. It has $3 billion in assets under management, 56% of which are tax-exempt.

"I think it's very positive in that they changed the name and they're trying to get away from the Drexel stigma," said Annette Calderwood, a research analyst at SEI Funds Evaluation Services Inc., Chicago.

"The Drexel name has hurt" the firm's business prospects in the past year, said Terry Bilkey, senior vice president, Butcher Consulting Group, Pittsburgh.

Officials at 1838 Investment Advisors denied the investigation was the reason for the sale, instead saying they wanted to control their destiny and infuse an entrepreneurial spirit into the firm.

Seventy-five percent of the firm was purchased by management, with a 25% passive equity piece purchased by Lambert Brussels Associates L.P., part of The Pargesa/Groupe Bruxelles Lambert

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Bailout by NCNB leaving no wake

By Fred Williams

DALLAS — The bailout of First RepublicBank Corp. by NCNB Corp. is not expected to have major repercussions in the trust investment divisions of the two banking giants for several months, and is having little immediate impact on clients.

H. Edward Anderson, chairman of First RepublicBank Asset Management, said he believes the two investment management sections "will be run as two separate organizations. We serve two different markets."

Don Berdine, senior vice president and chief investment officer at NCNB, said, "For the foreseeable future we will have two outstanding trust departments and it will be well into 1989 before we begin talking about what will happen (in the trust investment area). I'm optimistic. They have strengths we don't have and by combining the products of the two entities, hopefully they will become a stronger money manager and trust department as we will."

Most institutional trust clients of the former First RepublicBank, now NCNB Texas National Bank, said it is too early to decide what will happen, but

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Credit quality better

Rating scenario upbeat for second half

By Brad Rudin

Reversing a long-term decline, credit quality improved in the second quarter on the strength of improving fundamentals in the energy sector and a favorable international competitive position for industrial credits generally.

"Underlying this favorable rating trend is a demonstrably strong domestic economy which has provided a healthy operating environment for most firms," Duff & Phelps Inc., Chicago, reported in its assessment of second quarter credit quality.

Looking ahead, Duff & Phelps noted its Watch List of credits under review "bode(s) well for the remainder of 1988."

Both Moody's Investors Service and Standard & Poor's Corp. presented a cautiously upbeat view of the future of credit quality.

Downgrades as a percentage of total rating actions fell at each of the five credit rating agencies.

At Duff & Phelps, downgrades as a percentage of total rating actions stood at 29% in the second quarter compared with 55% in the first quarter. At Standard & Poor's, downgrades accounted for 55% of rating actions in the second quarter, compared with 69% in the first; at Moody's, 63% vs. 69%; at McCarthy, Crisanti & Maffei Inc., 60% compared with 88%; and at Fitch Investors Service, 54% against 64%.

S&P reported the main impetus for the positive shift in credit quality came from the energy group, where 18 ratings were upgraded and only one was downgraded. The firm cited the upgrades of Texaco Inc., which was discharged from Chapter 11 bankruptcy proceedings, and Mobil Corp., which has strengthened its balance sheet and achieved better pricing.

For industrial credits generally, S&P said the healthy economy resulted in affirmed ratings for credits vulnerable to downgrade, but the agency's report added, "this does not necessarily portend a flurry of higher ratings in the third and fourth quarter." Corporate restructurings are likely to limit improvements in industrial credit quality, according to the report.

While the upgrades equaled downgrades in the industrial companies rated by Standard & Poor's, downgrades exceeded upgrades in the financial institutions, utilities and transportation sectors.

Of the 23 companies upgraded by Moody's, 15 were in basic industries and related sectors. Successful restructuring, cost cutting and a weakened dollar are responsible for the uptick, Moody's said.

But Moody's also cautioned expected corporate restructurings in retailing, electronics and construction likely would weaken credit quality in those industries.

Houlihan Lokey Howard & Zukin Inc., Los Angeles, which ranks corporate credits according to stock market-based data, noted second-quarter credit quality improvements among oil and steel companies.

Recapitalized companies such as Harcourt Brace Jovanovich Inc. and Viacom International Inc. are rapidly improving credits because the healthy economy eases concerns about leverage, Houlihan Lokey reported.

Houlihan Lokey also noted credit quality deteriorated in the health-care sector, where declines were especially evident in hospital administration and medical products. ■

Corporate credit rating changes

	2nd quarter 1988		1st quarter 1988	
	Up	Down	Up	Down
Duff & Phelps	22	9	20	24
Fitch Investors Service	13	15	5	9
McCarthy, Crisanti & Maffei	8	12	2	14
Moody's Investors Service	38	65	34	75
Standard & Poor's	73	89	57	127

Source: The rating agencies

Legal fight now rests with judge

CHICAGO — Attorneys for Navistar International Corp., the Pension Benefit Guaranty Corp. and a Wisconsin Steel Co. bankruptcy debtors group have presented their closing arguments in U.S. District Court in the Wisconsin Steel unfunded pension liabilities case.

The judge's decision could determine the extent of the PBGC's reach in seeking assets from a corporation involving a former subsidiary that subsequently was unable to pay pension benefits.

Judge James B. Moran has taken the case under advisement and is expected to render a decision near the end of this month.

Judge Moran could award treble damages, totaling $900 million, to the plaintiffs if he convicts Navistar in the bench trial for fraud, racketeering and bankruptcy violations. Navistar faces $300 million in claims, including $146 million in unfunded pension liabilities and interest.

Attorneys for the PBGC and a creditors bankruptcy group contend Navistar, then called International Harvester Co., fraudulently sold the Wisconsin Steel unit in 1977 to dump the unit's unfunded pension liabilities, then totaling about $70 million, onto the PBGC.

They argue Navistar knew the buyer, Envirodyne Inc., would be unable to make Wisconsin Steel a viable economic entity. The steel unit filed for bankruptcy in 1980 and subsequently was closed.

Navistar attorneys argue Envirodyne's business proposals for the steel company were sound and that the PBGC reviewed the pension plans before and after the sale, indicating no imminent worries about continued funding.

Envirodyne isn't involved with the suit, having paid the PBGC a $2 million settlement. ■

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MUTUAL FUNDS

Institutions keep industry growing

By Carol Wiley

Retail investors, wary of the real or perceived risk of the market, have shunned equity mutual funds since Oct. 19, while institutional investors, accustomed to the ups and downs of the long haul, account for the increased use of mutual funds.

Rather than pull out of the market entirely, investors are moving assets into bond and short-term funds, or, at the very least, into conservative, blue-chip stock funds to minimize risk.

The mutual fund industry, meanwhile, attempting to reassure the customers it already has, is concentrating on more and better service and products, including customized investment plans that provide small clients with all of the sophisticated bells and whistles the big guys use.

Statistics from the Investment Company Institute, the national association of the mutual fund industry, confirm what several industry experts have reported.

Sales of stock, bond and income mutual funds were down $2 billion in May from April, and down $6.1 billion from May of 1987. Sales totaled $7.1 billion in May, compared with total sales in April of $9 billion, $9.1 billion in March, and $13.5 billion one year ago.

"Activity levels in general have been subdued as investors are apparently continuing to assess their investing strategies," said Ann Anderson, ICI assistant vice president of research.

Total assets of all mutual funds decreased $7 billion in May from April, and $1.5 billion since May of 1987. Total assets decreased in May to $803.8 billion, from $810.8 billion in April and $805.3 billion in May 1987.

"The decline in assets of long-term funds reflects lower bond prices in May, as well as shifts of assets from long-term funds to money market funds and other investments," Ms. Anderson said.

Government bond funds earned the sales lead in May with $1.4 billion in total sales, including reinvested dividends, followed by long-term municipal bond funds at $900 million.

Total May redemptions, which include transfers between funds, were down $100 million from April's $8.1 billion, and down $1.7 billion from $9.7 billion one year ago. Net sales of stock, bond and income funds in May were a negative $900 million, compared with $900 million in April and $3.9 billion in May, 1987.

Banks and insurance companies, which are prohibited from owning a mutual fund company or underwriting the funds but are free to manage funds, also are getting into the act because "it's the viable way for the average individual to invest," according to

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Largest mutual fund companies

Company	Assets ($ billions)	Number of funds
Fidelity Mgmt. & Research	71.7	131
Merrill Lynch Asset Mgmt.	71.2	57
Shearson Lehman Hutton	53.2	112
Federated	41.4	57
Dreyfus	35.8	76
Dean Witter Reynolds	34.7	28
Franklin Resources	33.7	59
Kemper Financial Services	32.2	30
Vanguard Group	32.1	51
Putnam	29.8	47
Prudential Mutual Fund Mgmt.	22.3	56
Capital Research and Mgmt.	18.7	33
IDS Financial Services	18.2	34
Massachusetts Financial Services	15	45
T. Rowe Price Associates	14.4	26

All figures as of May 31

Source: Hampton Investors Inc., New York, and Investment Company Institute

Bond funds reap gains from fall of stock market

By Trudy Ring

Dollars flowing into fixed-income funds have been the major cause of asset growth at the mutual fund companies that have prospered since the Oct. 19 stock market crash.

Most of the companies had few clients pull money out after the crash, but had transfers to fixed-income funds from equity funds.

The companies also report some growth in conservative equity funds — but fixed income is by far the biggest draw.

Prudential Mutual Fund Management Inc., New York, has had stellar asset growth in the post-crash environment. As of July 22, its mutual funds had assets of $27.45 billion, up from $23.25 billion Oct. 1 and $23.35 billion at year end.

Although Prudential — like most companies surveyed — couldn't provide an exact breakout of how much growth was due to market appreciation vs. new commitments, Michael Downey, president of the mutual fund group, said new commitments were the major reason for the growth.

The biggest draws for new commitments have been fixed-income funds that concentrate on U.S. Treasury and government agency securities, he said.

Massachusetts Financial Services Co., Boston, reported its mutual fund assets grew to $18.1 billion by June 30, from $14.6 billion at year end and $14.4 billion Oct. 1.

"In the months immediately following Oct. 19, the enhanced government funds far and away were the most popular funds, and continue to be the biggest seller by a wide margin," said William W. Scott Jr., senior vice president. These funds concentrate on Treasury and agency securities.

However, their popularity is being challenged by funds investing in municipal, high-yield or intermediate-term bonds, and total return (balanced) funds also have come on strong, he said.

Kemper Financial Services Inc., Chicago, has been another big winner, with $33.3 billion in mutual funds as of June 30, up from $30.5 billion at year end and $31.5 billion at the close of the third quarter.

The high-yield bond area has been the most popular for Kemper, said T.V. Williams, executive vice president and managing director-mutual funds. The decline in the fourth quarter was due largely to the decline in the market value of equities, he said.

"We had an awful lot of switching" to fixed-income funds from equities after the crash, Mr. Williams said. "In terms of pure redemptions, it was much less than we would have imagined or you would think."

Some other big mutual fund companies have had more

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Covering the globe

Assets going overseas triple in 4 years

By Marlene Givant

At $31 billion, global and international funds comprise the fastest growing sector in the mutual fund industry with bond funds fueling the recent momentum.

Mutual funds, like pension funds, have tripled their global and international assets since 1984, according to figures supplied by the Investment Company Institute, Washington, and global and international bonds, the new darling of pension fund investments, are leading the mutual fund scene as well.

Global and international bond mutual funds totaled $2.8 billion as of May 31, less than one-third the amount of foreign bonds managed for U.S. tax-exempt funds (*Pensions & Investment Age*, June 27), but the assets are growing furiously, fueled by booming sales. Assets in international and global bond funds totaled $2.8 billion as of May 31 vs. $64.4 million in 1985, according to the ICI.

"Foreign bond funds have attracted people interested in the international story but concerned about stock market valuations here and overseas," said George Murnaghan, vice president of Rowe Price-Fleming International Inc., Baltimore, which manages the 2-year-old T. Rowe Price International Bond Fund, whose $420 million in assets rivals the 8-year-old T. Rowe Price International Equity Fund's $654 million.

Given the parallels with pension funds, it's no surprise international and global mutual funds attract substantial interest from institutions. In the past two years, institutions have held slightly more than one-third of the assets in international and global equity mutual funds. They're lured by management expertise at prices

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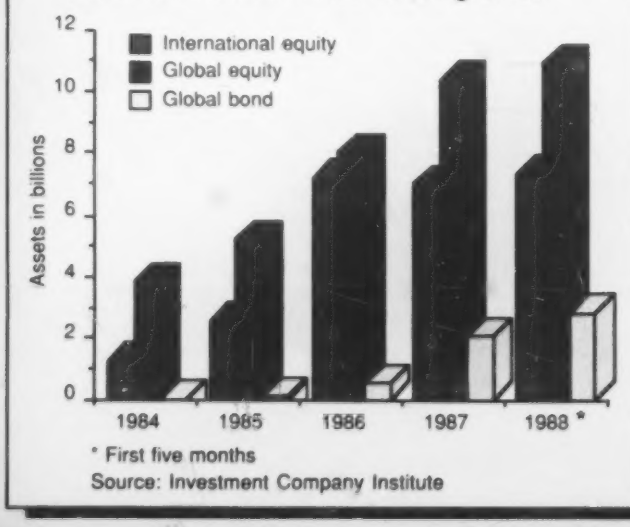
Non-U.S. mutual funds asset growth



* First five months

Source: Investment Company Institute

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Institutions

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Dick Loos, managing director of Marinvest, New York, with $1.2 billion in mutual funds under management.

"The industry is very much alive and very well, even though there have been downtrends in sales, because it's the ideal way to invest," Mr. Loos said. "Even though the industry is oversupplied, there is a tremendous retail market still available.

"When they become more comfortable with the market, they will go back in."

Results from an ICI survey a month after the crash revealed 75% of the respondents ranked safety and stability as the most important reason for their investment choices, according to Charles Mizrahi, president of Hampton Advisors Inc., New York, which manages $21 million in mutual funds.

"It used to be about 75% of the customers were willing to lose 15% to 20%, but now only about a quarter of them are," he said.

Until the comfort level returns, retail investors, instead of making redemptions, are "transferring within the family, retailoring their investments," Mr. Mizrahi said.

And mutual fund companies are making sure they retain the clients they have.

Money market funds are advertising, normally, they don't have to. "Most regard a short-term fund as a temporary parking place" while waiting for interest rates and the market to move, said Stan Egener, president of Neuberger & Berman Management Inc., New York. The firm has $1 billion in mutual fund assets.

Since Oct. 19, the average load or service charge for about 20 mutual funds has dropped to 5% from 8.5%; some funds have done away with loads all together.

Mutual fund companies have installed more telephone lines for customers, and, with a few taps on their Touch-Tone phones, can obtain information about their accounts and transfer money from one fund to another.

"We're seeing tremendous interest in providing cost-efficient, quality service to the customer, because we don't want to lose the customer," said Donald Hearn, executive vice president of The Boston Co. Advisors, which has $1.2 billion in mutual fund assets.

Mr. Hearn, who also noted a shifting of assets into fixed-income accounts from equities, said mutual fund managers, particularly banks, also are creating new products to attract and retain customers. The Boston Co., for example, has an asset allocation system, so the customer can designate an asset mix for his or her investment.

Alliance Capital Management Corp., New York, also has a customized product, pegged to the Standard & Poor's 500 stock index, according to Jack Horney, vice president. Alliance has $10 billion in mutual fund assets.

Meanwhile, while the retail market was taking a beating, the institutional side of the industry is growing, reaping the assets from defined contribution plans and specifically 401(k) plans.

Twenty-five percent of all pension funds use mutual funds, according to Denman Zirkle, managing director of Marinvest, and mutual funds' "inherent advantages will continue to appeal to institutional users."

"The institutional market is long term, and there is no evidence the institutional mutual fund market is declining," said Mr. Zirkle.

Marine Midland Bank, the New York-based parent of Marinvest, has added an intermediate bond fund and an equity fund and is looking at investment products from Hong Kong and Shanghai to round out its offering of mutual funds.

"There is more interest than ever" in mutual funds as 401(k) options, said Laura Henry, assistant vice president-institutional marketing for Fidelity Investments Institutional Services Co., Boston. Fidelity has $75 billion in mutual fund assets.

More flexible funds will continue to be developed in response to proposed Department of Labor regulations that reduce the employer's fiduciary responsibility if the employer offers a broad range of investment options, Ms. Henry said. ■

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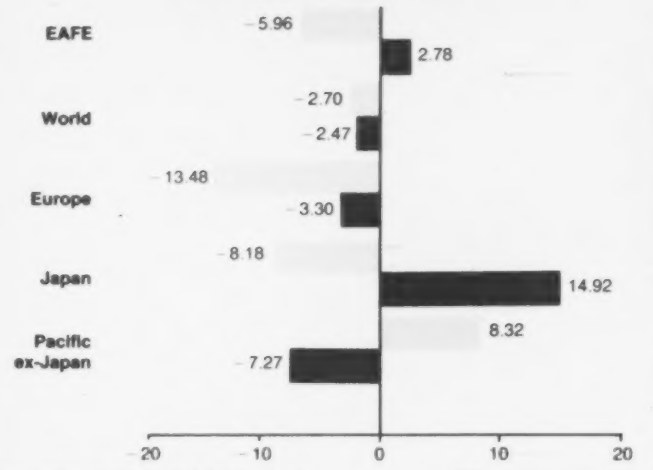
July 25, 1988

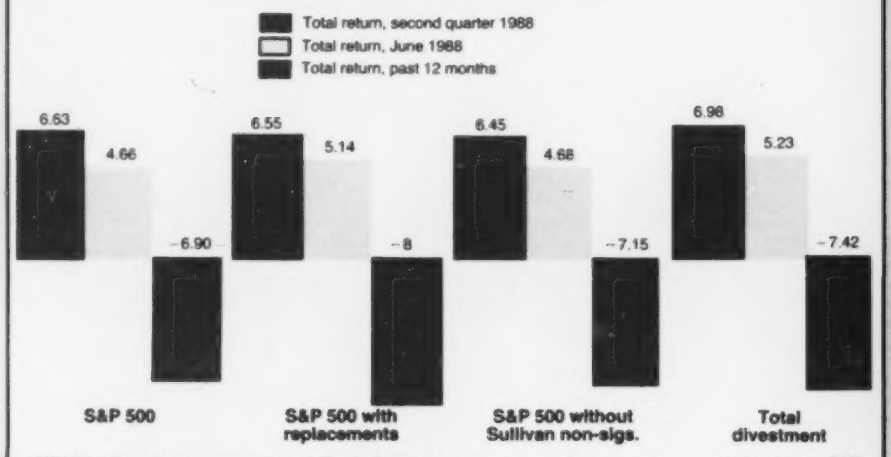
STATISTICALLY SPEAKING

Morgan Stanley Capital International worldwide indexes



Source: Morgan Stanley Capital International
Indexes are in U.S. dollar terms without dividends reinvested

South Africa Free Index



S&P 500 with replacements: replaces a South Africa-related company with next largest company in the industry. **S&P 500 without Sullivan non-signatories:** excludes 20 companies, no replacements. **Total divestment:** eliminates all companies with South Africa involvement, no replacements.

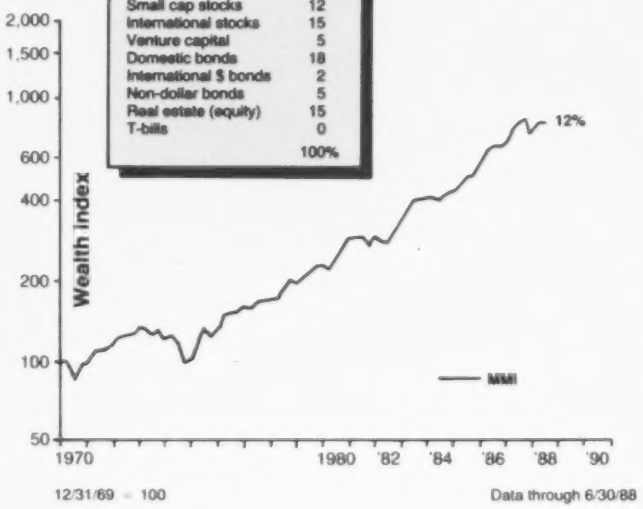
Source: Wilshire Associates, Santa Monica, California

Multiple Markets Index

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of eight asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.

Weights	
Large cap stocks	28%
Small cap stocks	12
International stocks	15
Venture capital	5
Domestic bonds	18
International $ bonds	2
Non-dollar bonds	5
Real estate (equity)	15
T-bills	0
	100%

Five-year annualized return	14.7%
One-year return	3.5%
Latest quarter	2.3%

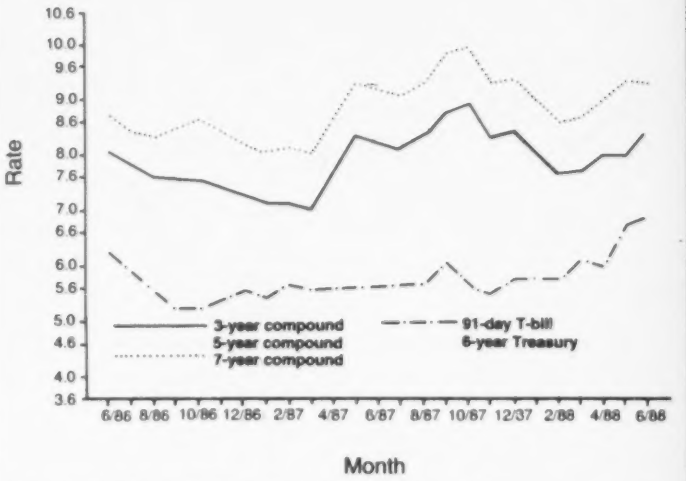


12/31/69 = 100 Data through 6/30/88

Source: First Chicago Investment Advisors, Chicago

Summary of average bullet GIC data vs. market yields

($1 million contract)



Source: William M. Mercer-Meidinger-Hansen Asset Planning Inc., Dallas

Second quarter 1988 returns

	Russell 3000®	Russell 1000®	Russell 1000® by market capitalization				Russell 2000®
			Large	Medium/large	Medium	Medium/small	
Technology	10.95%	11.52%	12.54%	11.88%	9.26%	7.27%	6.27%
Health care	0.51	0.17	0.72	-3.19	2.52	5.94	3.57
Consumer discretionary	5.84	5.50	6.73	3.43	6.27	7.03	8.04
Consumer staples	1.62	1.32	0.84	-0.59	5.74	6.92	10.86
Integrated oils	2.33	2.32	3.41	-8.75	6.50	1.87	5.82
Other energy	1.78	2.32	NA	3.12	1.42	3.19	-1.98
Materials and processing	10.16	10.43	13.51	11.41	9.81	7.43	8.16
Producer durables	6.33	5.95	4.62	5.68	3.54	14.87	9.30
Auto and transportation	9.64	9.53	19.74	1.99	4.94	6.66	11.16
Financial services	8.80	9.22	11.28	10.83	10.25	5.23	2.93
Utilities	7.08	7.09	7.27	6.22	7.71	7.76	6.49
Total	6.85	6.83	7.23	5.28	7.04	6.99	6.97

Source: Frank Russell Co., Tacoma, Wash.

STATISTICALLY SPEAKING

GIC rates rise slightly

Fears of inflation, moves by Fed explain increase

By Curtis Vosti

Rates on guaranteed investment contracts offered by insurance companies increased slightly in the second quarter, while spreads between the GICs and comparable Treasuries continued to be tight.

Observers agree the higher rates primarily are due to concerns of inflation and two second-quarter cinches of interest rates by the Federal Reserve Board.

Although "the old heydays of 100 to 150 basis points over Treasuries is over," the demand for GICs is still heavy, according to Sharon Morell, a GIC contract negotiator for Morley Capital Management, Lake Oswego, Ore.

"There is a steady stream of buyers, even though the spreads were not as high as they had been at the end of last year," said John Knight, president of Lamberson Knight Investment Securities, a Short Hills, N.J., GIC brokerage firm.

"They (investors) finally realized that this is where the spread is going to be," Mr. Knight said.

Insurers are looking to expand product lines in light of the continual tight supply of GICs because of the increasing demand, as well as the stepped up marketing by banks and savings and loans of their versions of guaranteed contracts, according to Peter Bowles, president of Fiduciary Capital Management Inc., Boston, an GIC investment manager.

Bankers Trust Co., New York, reports $300 million in new clients this year for its bank investment contract product.

The demand for guaranteed investment products is so great some insurers had to stop accepting business because they were approaching or had reached their capacity limits, Ms. Morell said.

"We saw several insurance companies step back (during the second quarter) and saw they had done well over 50% of their GIC business (capacities)," she said.

Because this is the time of year when many plans seek bids on GICs for 1989, Mr. Bowles said there will be an increasing strain on insurance companies, which by law are restricted in their GIC capacities through specific reserve requirements.

However, this seasonal strain is being offset partially by the "BICS" and "SLICS" offered by banks and savings and loans, and through the practice of some major plan sponsors of bidding out their GICs several times a year instead of just once a year, Mr. Bowles said. "That spreads the strain on the insurers over a much longer period of time," he said.

Gene Gochenour, president of GIC Inc., Beaverton, Ore., a GIC broker, said an additional benefit of increasing the number of times a year plan sponsors go out for GICs is that it allows them a chance at a better rate and allows employees to participate in up and down markets as they choose.

He said that as the GIC industry matures, plan sponsors are looking at variations of the traditional window or bullet plans. "We have seen quite a few requests for 'ladder' GICs to allow for diversification of insurance companies and maturities," he said.

Scott Sokol, director of investments for Chambers, Dunhill, Rubin & Co., a Beverly Hills, Calif., investment banking firm, said the open-ended floating rate GICs, where rates change monthly, have been one vehicle for new insurers to enter the GIC market and thus expand capacities.

"The insurance companies are definitely not having any problems filling capacities," he said.

GIC Inc. and Lamberson Knight provide insurance company rate quotations on representative five-year, single deposit, simple interest, $1 million GICs for June 30 and March 31, as follows:

- Allstate Life Insurance Cos., Northbrook, Ill.: June 30, 8.61%; March 31, 8.41%.
- American United Life Insurance Co., Indianapolis: 8.77%; 8.36%.
- Banker's Life Assurance Co., Des Moines, Iowa: 8.44%; 8.12%.
- CNA Insurance Co., Chicago: 8.7%; no quote.
- Confederation Life Insurance Co., Atlanta: 9.13%; 8.85%.
- Connecticut Mutual Life Insurance Co., Hartford, Conn.: 8.71%; 8.37%.
- Crown Life Insurance Co., Toronto: 8.79%; 8.25%.
- Great West Life Assurance Co., Denver: 8.85%; 8.06%.
- Hartford Life Insurance Co., Hartford, Conn.: 8.81%; no quote.
- Home Life Insurance Co., New York: 8.7%; 8.21%.
- John Hancock Mutual Life Insurance Co., Boston: 8.62%; 8.41%.
- Life Insurance Co. of Georgia, Atlanta: 8.91% (June 28); no quote.
- Life Insurance Co. of Virginia, Richmond: 8.74%; 8.7%.
- Lincoln National Pension Insurance Co., Fort Wayne, Ind.: [illegible]% (June 28); no quote.
- Massachusetts Mutual Life Insurance Co., Springfield, Mass.: 8.45%; 8.13%.
- Minnesota Mutual Life Insurance Co., St. Paul: no quote; 8.63%.
- Mutual Benefit Life Insurance Co., Newark, N.J.: 8.7%; 8.3%.
- Mutual of New York, New York: 8.77%; 8.35%.
- New England Mutual Life Insurance Co., Boston: 8.67%; 8.02%.
- New York Life Insurance Co., New York: 8.9%; 8.35%.
- Northwestern Mutual Life Insurance Co., Minneapolis: 8.6%; 8.37%.
- Ohio National Life Insurance Co., Cincinnati: 9%; 8.75%.
- Pacific Mutual Life Insurance Co., Newport Beach, Calif.: 8.33%; 7.92%.
- Pan American Life Insurance Co., New Orleans: 9.04%; 8.69%.
- Penn Mutual Life Insurance Co., Philadelphia: 8.9%; 8.82%.
- Phoenix Mutual Life Insurance Co., Hartford, Conn.: 8.8%; 8.5%.
- Provident Mutual Life Insurance Co., Philadelphia: 8.51%; 8.46%.

Continued on page 34

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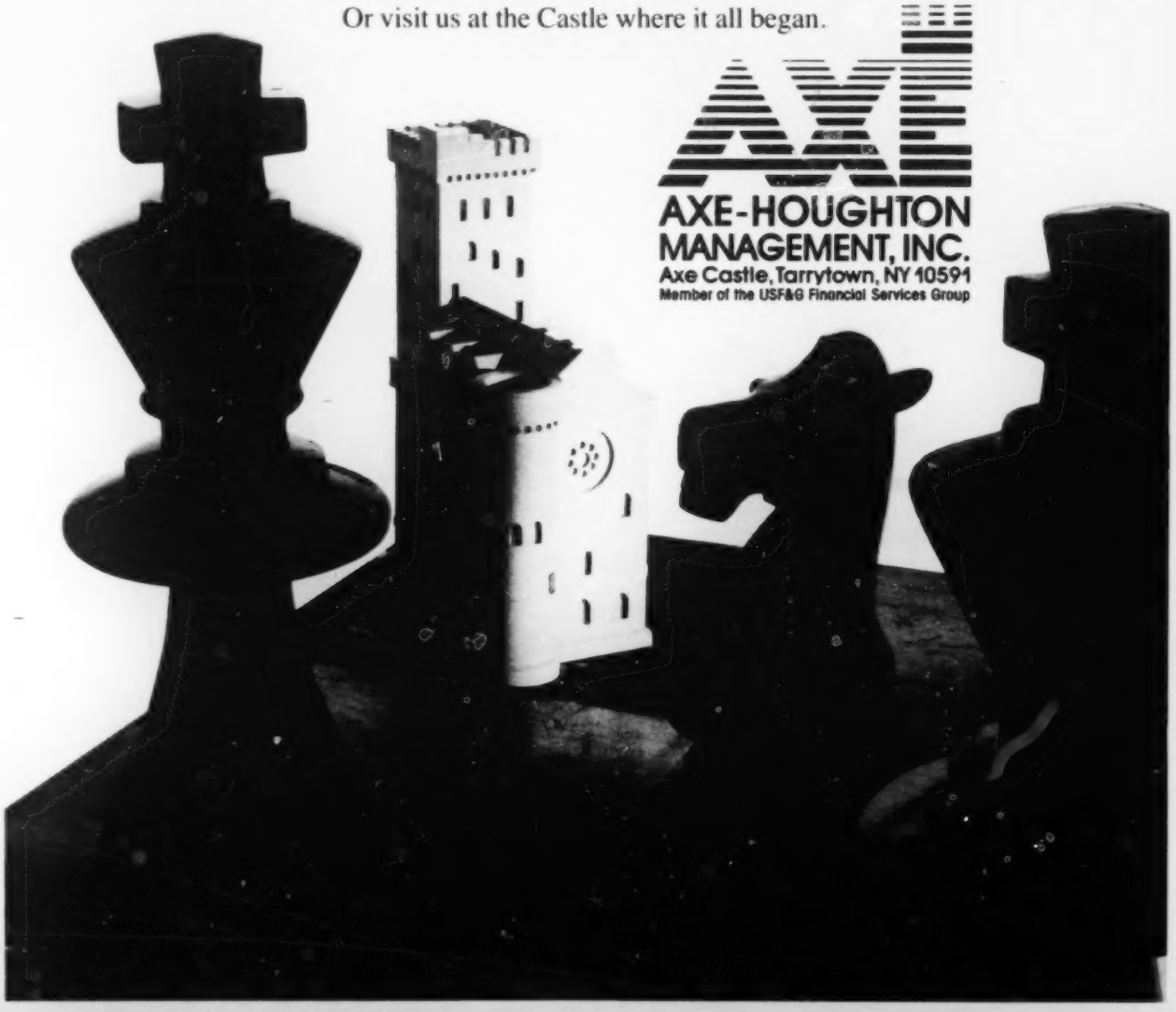

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STATISTICALLY SPEAKING

Basic industry is leader in quarter

By Trudy Ring

KANSAS CITY, Mo. — Basic industry stocks led the market in the second quarter, while the best-performing bonds were U.S. government issues, according to the consulting firm DeMarche Associates.

The basic industry sector gained 8.8% in price in the quarter, compared with 5.5% for the Standard & Poor's 500 stock index. All stock return figures are price appreciation only.

"Investors are showing faith that the economy will be strong," Robert F. Marchesi, president of DeMarche, said of the sector's and market's performance.

Basic industry stocks gained 13.5% in the first half of the year and lost 6% in the 12 months ended June 30. The S&P 500 gained 10.5% for the half and lost 10.5% for the year.

Stocks sensitive to interest rates were the quarter's second best performers, up 7.8%. They gained 10.5% for the first half and lost 6.4% in the 12-month period.

Technology stocks were up 6.8% in the quarter. They had the worst performance for both the longer periods, with a gain of 5.5% in the half and a loss of 15.1% for the year.

Stocks related to consumer spending gained 2.6% in the quarter. For the half, they gained 10.8%; for the year, they lost 12.8%.

After leading the market in the first quarter, the energy sector was the only negative performer in the second, off 1.1%. The sector was up 12.2% for the half and down 13.3% for the year.

The 10 best-performing industries for the quarter were banks, up 18.7%; cars and trucks, up 16.6%; aluminum and copper, up 15.9%; paper, up 15.2%; office equipment, up 15.1%; miscellaneous metals and minerals, up 14%; textile products and apparel, up 13.3%; miscellaneous financial companies, up 12.2%; building materials, up 10.9%; chemicals, up 9.4%.

The bottom 10 industries were integrated domestic oil, down 7%; oil service and equipment, down 6.3%; tobacco, down 4.1%; truck transportation, down 1.6%; drugs, down 0.6%; food packagers and processors, also down 0.6%; special machinery, down 0.5%; integrated international oil, up 0.7%; rail transportation, up 1.4%; and consumer household products, up 2.8%.

Besides analyzing stocks by economic groups, DeMarche groups them by quality, growth and yield.

As measured by quality, stocks in the below-average quality quartile, based on several balance sheet variables, outperformed others for all periods. They were up 6.8% in the quarter and 16.7% in the half and down 5.4% for the year.

As ranked by company growth patterns, variable-growth stocks led for the quarter and half, with 6.7% and 13.4% respectively. As rated by yield, low-yield stocks had the best price appreciation for the quarter, 6.9%.

U.S. government issues led the bond market for the quarter with a total return of 1.6%. The market, as measured by the DeMarche Pension Fund Bond Index of 6,000 issues, returned 1.5%. All bond figures are total return.

Government bonds returned 5.7% for the six-month period, while the index returned 5.5%, and 8.5% for the year ended June 30, when the index returned 8.6%.

Financial company bonds were second for the quarter with a 1.5% return. They were up 5.3% for the half and 8.4% for the year.

Industrial, utility and Canadian bonds all returned 1.4% in the quarter. Industrials were up 5.5% in the half and 8.8% for the year; utility issues gained 5.8% for the half and 9.2% for the year; and Canadian bonds were up 5.9% for the half and 8.5% for the year. ■

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Rates

Continued from page 33

- Provident National Assurance Co., Chattanooga, Tenn.: 8.54%; no quote.
- SAFECO Corp., Seattle: 8.9%; no quote.
- Southwestern Life Insurance Co., Dallas: 9.04%; 8.66%.
- State Mutual of America, Worchester, Mass.: 8.65%; 8.35%.
- Transamerica Life Insurance and Annuity Co., Los Angeles: 8.89%; no quote.
- Union Central Life Insurance Co., Cincinnati: 8.38%; 8.63%.

William M. Mercer-Meidinger-Hansen Asset Planning, Dallas, surveys insurance companies for rate quotations, but does not identify the companies. A summary of various bullet GICs for June follows:

- Three-year, $1 million, compound: high, 9.32%; low, 7.77%; average, 8.39%.
- Three-year, $1 million, simple: high, 9.12%; low, 7.66%; average, 8.36%.
- Five-year, $1 million, compound: high, 9.95%; low, 8.15%; average, 8.98%.
- Five-year, $1 million, simple: high, 9.47%; low, 8.11%; average, 8.92%.
- Seven-year, $1 million, compound: high, 9.99%; low, 8.24%; average, 9.27%.
- Seven-year, $1 million, simple: high, 9.75%; low, 8.29%; average, 9.17%.
- Three-year, $5 million, compound: high, 9.27%; low, 7.85%; average, 8.44%.
- Three-year, $5 million, simple: high, 9.03%; low, 7.84%; average, 8.39%.
- Five-year, $5 million, compound: high, 9.97%; low, 8.21%; average, 9.02%.
- Five-year, $5 million, simple: high, 9.48%; low, 8.2%; average, 8.94%.
- Seven-year, $5 million, compound: high, 9.93%; low, 8.41%; average, 9.32%.
- Seven-year, $5 million, simple: high, 9.75%; low, 8.42%; average, 9.18%.

Dietrich & Associates, a Blue Bell, Pa.-based GIC brokerage firm, provided the following rate spread data between a $1 million, five-year, simple-interest GIC and the average Treasury security of the same maturity for 1988's second quarter:

- April 4: GIC, 8.85%; Treasury, 8.15%.
- May 2: 9.05%; 8.34%.
- June 3: 9.2%; 8.51%.

The same information for the previous three quarters was:

- March 1: GIC, 8.65%; Treasury, 8.59%.
- Dec 9: 9.28%; 8.59%.
- Sept. 2, 9.5%; 8.59%. ■